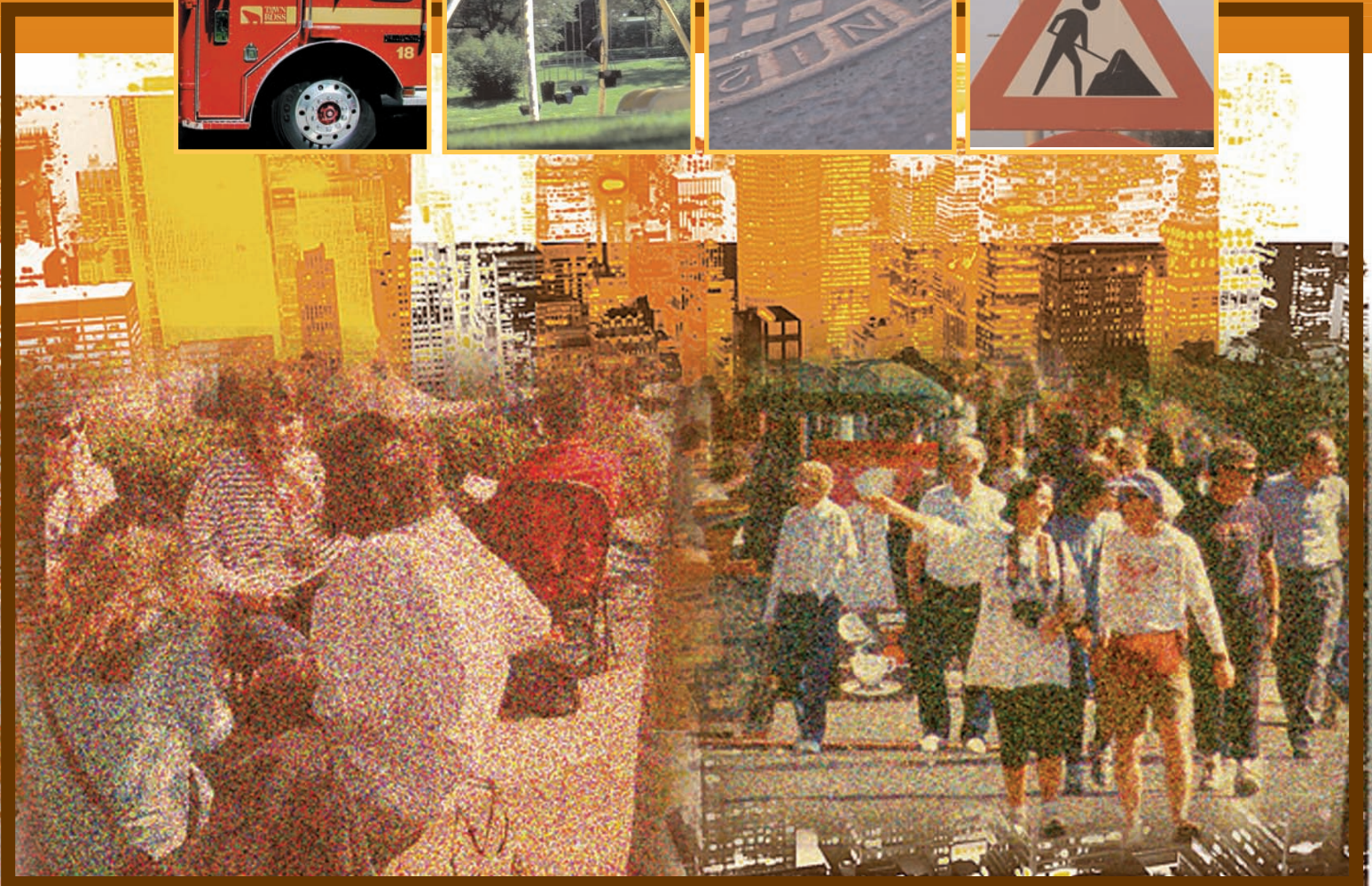


Pooled Liability Assurance Network

STATEMENT OF BENEFITS AND PROGRAM HIGHLIGHTS

2005-2006



Chairman's Message



Dear Members and Friends:

I am very pleased to serve as 2005-2006 Chairman of the Association of Bay Area Governments (ABAG) Pooled

Liability Assurance Network (PLAN). We provide cities, towns, and other municipal organizations with cost-effective pooled insurance services. As with any dynamic organization, ABAG PLAN continues to evolve and adapt to changing conditions both in terms of the insurance market and in claim trends among our members.

ABAG PLAN provides shared risk programs, including pooled property, and purchasing pools as well as claims administration, recovery services and risk management services. Details about activities and future plans are detailed in this report.

During the Program Year 2004-2005, ABAG PLAN both paid out substantial funds for the Shared Risk Programs and found success with strategic planning activities in all areas. A significant change in our Risk Management Program is the new Risk Management Policy, adopted after four years of strategic planning activities.

The new Risk Management Policy encourages members to provide a strong risk management framework for city/town operations by effectively identifying and analyzing risks, establishing recommended strategies (best practices), monitoring effectiveness, and providing incentives to maintain and improve results. The Policy criteria govern all aspects of our pooled insurance program, from new members to performance standards. The new policy is



designed to reduce member claims in the liability and property pool programs. Members who meet the established standards are allowed to

pick and choose from available financial resources to support their individual activities.

ABAG PLAN has settled all of our significant outstanding claims, and the last two Program Years have so far seen a return to relatively stable results. These successes come after payments totaling over twice our average during 2004-2005, due to significant loss development in the 2002 Program Year. In addition to the high level of 2002 sewer claims, we also settled our largest single claim of \$3.5 million, water damage claims over \$2 million, and sidewalk claims over \$1 million.

The good news is we've weathered the storm. As a result of our strategic planning activities and associated practices, ABAG PLAN has been able to absorb these payments and still maintain the SIR Fund at almost \$20 million. In addition, we have seen a reduction in a number of key exposures, including sidewalk and sewer claims.

ABAG PLAN provides defensive driving and sidewalk liability training sessions, planning for storm events,

contract management ideas, and other risk management assistance. The "Be Sewer Smart" public awareness campaign continued with the first "Sewer Summit" with participants from the regulatory, plumbing, and system operation fields sharing ideas for working together to prevent and reduce the impact of backflows.

The campaign and ABAG PLAN received national recognition in 2005 by receiving the top Achievement Award in the Pool category from the Public Risk and Insurance Management Association (PRIMA). We will continue our efforts in this important area to assist our members to reduce backflows.

ABAG PLAN provides shared risk programs, including pooled property, and purchasing pools as well as claims administration, recovery services and risk management services. Details about activities and future plans are detailed in this report.

I look forward to this year and know that ABAG PLAN will be able to "weather" the challenges of the future as adeptly as our history reflects.

Jim Steele, ABAG PLAN Chairman, Finance Director, City of South San Francisco



 Association of Bay Area Governments

ABAG PLAN Grant Programs 2005-2006

The following grant programs and services are available to ABAG PLAN members in 2005-2006.

Risk Management Framework & Best Practices

Grants up to \$10,000 are available for any purpose related to risk management, for completing the risk management framework items (\$5,000) and at least 50 percent of the best practices related to risk exposures (\$5,000).

Risk Management Services Credit

To make it easier for members to complete the framework and best practices, we have established credits ranging from \$3,600 (members with populations less than 20,000) to \$9,600 (members with populations more than 34,000 to 54,000) and above. This will provide the resources needed to address the recommendations in each member's risk assessment and to assist in meeting the framework and best practices standards.

Defensive Driver Training

ABAG PLAN pays for defensive driver classroom instruction and behind-the-wheel training for members. We use the State Safety Center for our training, and are willing to try other vendors, including on-line training, as recommended by members.

Risk Management Training

Up to \$1,000 each year is available for members to attend training or can be used for conferences, or to provide training in-house via personal or on-line delivery. Conferences and training include PARMA (www.parma.com), CAJPA (www.cajpa.org), PRIMA (www.primacentral.org), or other risk management related organizations, such as (www.icatraining.com).

Risk Management Fund – Sidewalk or Pilot Program

ABAG PLAN provides a maximum of \$5,000 a match for sidewalk repair offsets that may be trip hazards. The goal is to repair at least 200 offsets and the match applies to contracted or in-house work. Members can also make funds available to homeowners through 50 percent grant matching programs.

For members who do not need sidewalk repair, the fund is available for other projects related to risk management programs. New ideas for a pilot program that may be helpful for other members are welcomed.

Police Risk Management

General orders are grants to assist member departments in meeting our best practices recommendations, including subscribing to a service for regular updates (at least annually) of a department's general orders. Once a member meets this requirement the following grants are available:

Equipment grants

Equipment grants provide up to \$10,000 per year as a matching grant for in-car video cameras, tasers, digital recorders, or other risk management related equipment.

Training grants

Training grants can pay for reserve officer perishable skills training not covered by POST and other training programs as suggested by members to address their risk management concerns.

Sewer Risk Management

ABAG PLAN's on-going Sewer Smart Program (www.sewersmart.org), will include new public education materials, back flow devices, and assistance for members in a variety of operational areas, including system maintenance, overflow response, and ordinance revision.

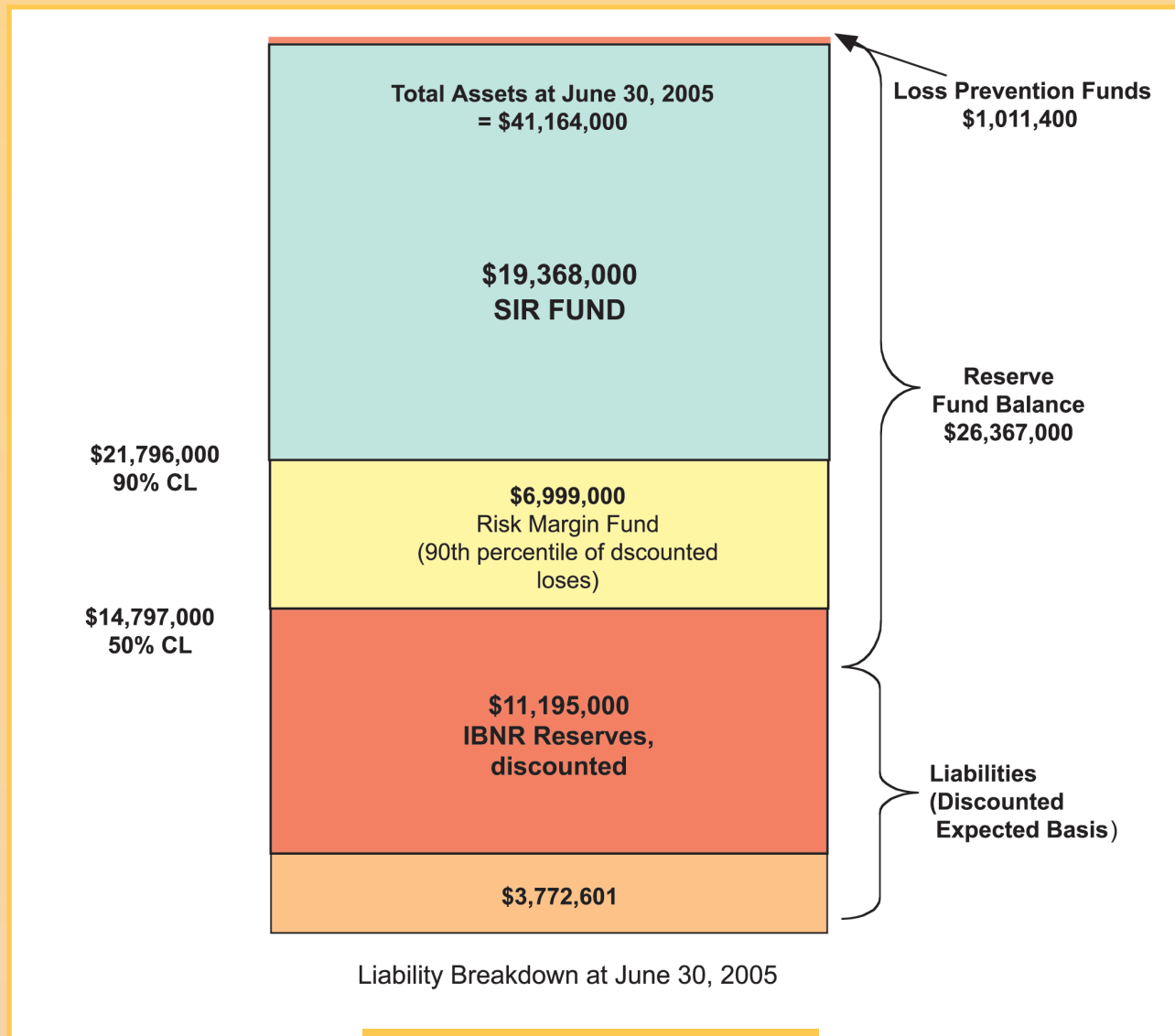
Please contact Marcus Beverly at (510) 464-7969 or marcusb@abag.ca.gov to apply, make recommendations for training or grant programs, or with any questions.



Financial Statement

The ABAG PLAN Corporation keeps its financial records in accordance with Government Accounting Standards Board (GASB) recommendations and procedures, and publishes an independently audited financial statement each year. Investments are governed by a Board approved policy and procedure. Cash beyond the requirement for normal operations is invested in California's Local Agency Investment Fund and other appropriate securities.

Liability Program



Composition of Fund Balance

Financial Statement

Balance Sheet

Assets

Cash and Cash Equivalents	\$ 884,183
Investment at Fair Market Value	40,181,645
Interest Receivable	553,660
Accounts Receivable	154,753
Equipment, Net	112,256

Total \$ 41,866,497

Liabilities and Retained Earnings

Claims Reserves	\$ 14,954,500
Other Payables	210,503
Retained Earnings	26,701,494

Total \$ 41,866,497

Income Statement

Revenue

Administration Premium	\$ 2,109,540
Liability Premium	4,869,792
Property Premium	983,574

Total Revenue \$ 7,962,906

Expenses

Provisions for Claims and Claims Adjustments	8,008,458
Property Insurance	796,364
Depreciation	61,834
Management and Administration	1,836,937
Excess Insurance & Bonds	520,704
Contract Services and Other Expenses	633,325

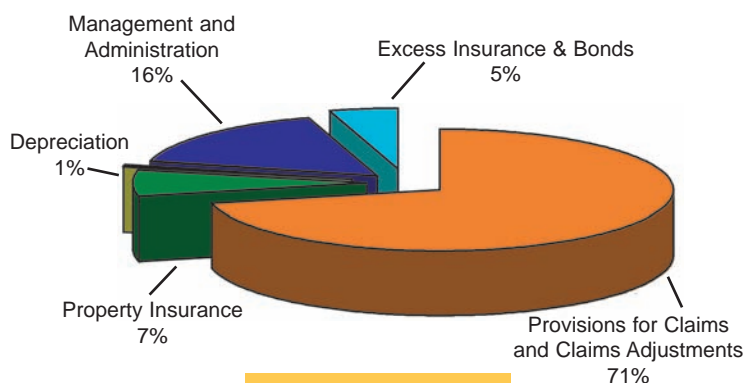
Total Expenses 11,857,622
Net Program Operating Income (3,894,716)

General Revenue (Expenses)

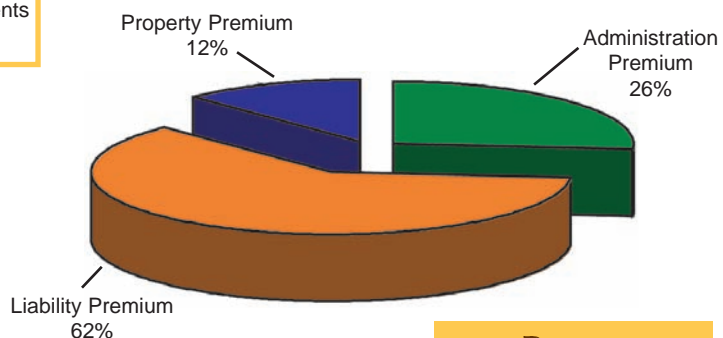
Unrealized Loss on Investments	(161,179)
Investment Income	1,731,862
Total General Revenue (Expense)	1,570,683

Change in Net Assets (2,324,033)
Beginning Net Assets 29,025,527

Change in Net Assets \$ 26,701,494



Expenses



Revenues

As of June 30, 2005

Shared Risk Programs

Pooled Liability Program

The 32 members of ABAG PLAN self-insure their general and auto liability claims by contributing to a shared risk pool. Each member chooses a self-insured retention (SIR) from \$25,000 to \$250,000. The pool pays claims up to \$5,000,000, and an excess insurance policy provides \$5,000,000 of additional coverage, for a \$10,000,000 per occurrence limit.

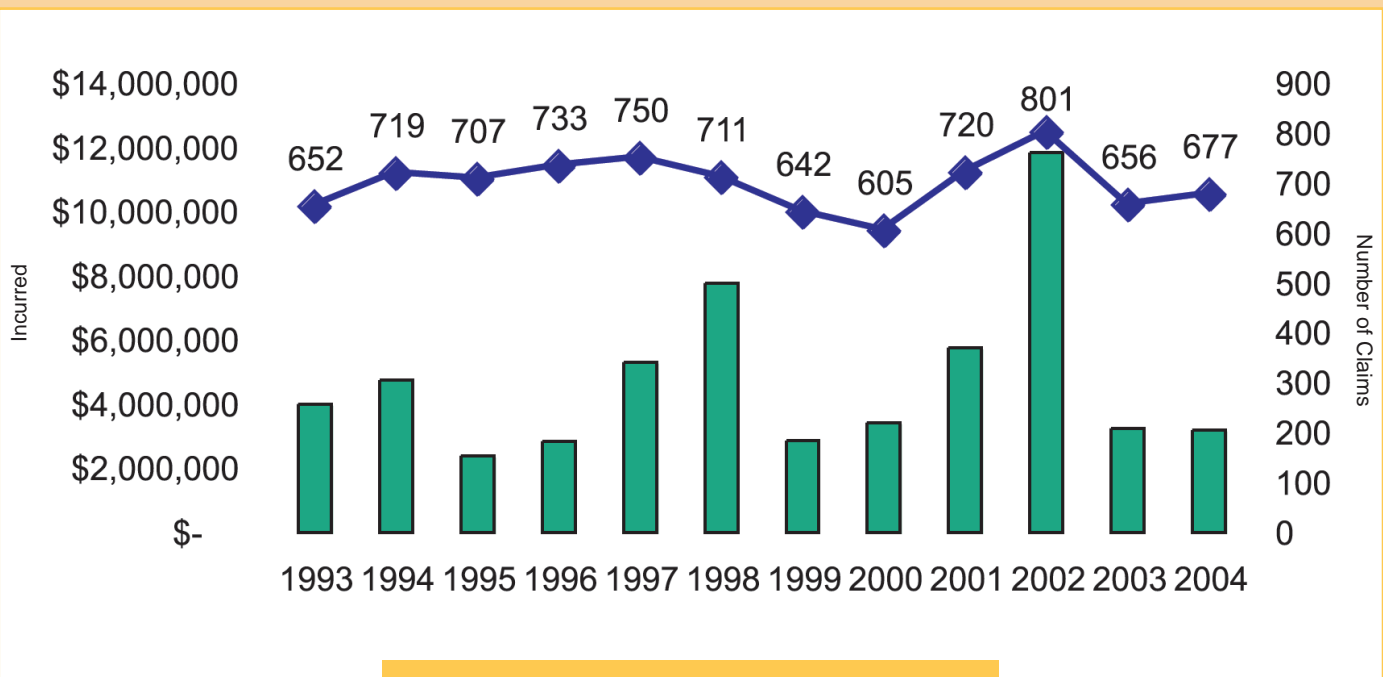
Coverage provides protection for Bodily Injury, Property Damage, Personal Injury, and Public Officials Errors and Omissions (E&O) claims. As of July 1, 2004, ABAG PLAN also provides coverage for Employee Benefit Plan Administration Liability, with a limit of \$250,000, to cover damages related to acts, errors or omissions in the administration of a qualified plan.

Claim trends during 2004-2005 were mostly unfavorable, due to significant loss development in the 2002 Program Year. This year saw highest level of sewer claims, settlement of a \$3.5 million claim, water damage claims over \$2 million, and sidewalk claims over \$1 million. In total, payments were twice the average in Fiscal Year 2004. 2002 became our worst year by over \$4 million.

ABAG PLAN has now settled these significant outstanding claims. The last two Program Years have so far seen a return to relatively stable results as seen prior to 2002. Past funding practices proved to be effective, as we absorbed these payments and still maintained the SIR Fund at almost \$20 million. In addition, we have seen a reduction in a number of our key exposures, including sidewalk and sewer claims.

While sewer backflows continue to be a challenge, both the total incurred and average paid have decreased by over 70 percent in the last two years to their lowest levels in over five years. Our comprehensive sewer loss prevention program, including a property claims specialist, member training, and our "Be Sewer Smart" public awareness campaign is largely responsible for this favorable trend.

The "Be Sewer Smart" program received national recognition in 2005 from the Public Risk and Insurance Management Association (PRIMA) as the top Achievement Award in the Pool category. We also hosted our first "Sewer Summit" in June of 2005. Participants from the regulatory, plumbing, and system operation fields came together to share ideas for working together to prevent and reduce the impact of backflows.



Total Incurred and Number of Claims

Shared Risk Programs

We will continue our efforts in this important area to assist our members in reducing backflows.

Pooled Liability Accomplishments

In 2004-2005, ABAG PLAN:

- ◆ Maintained Funding Stability with:
 - Loss rate decrease of 6.8 percent
 - Total funding increase consistent with total payroll increase
 - Stable limit and retention levels
- ◆ Maintained Financial Security by keeping SIR Fund at almost 4 times our retention. Activities included:
 - Funding \$350,000 for 2004-05 Risk Management Programs

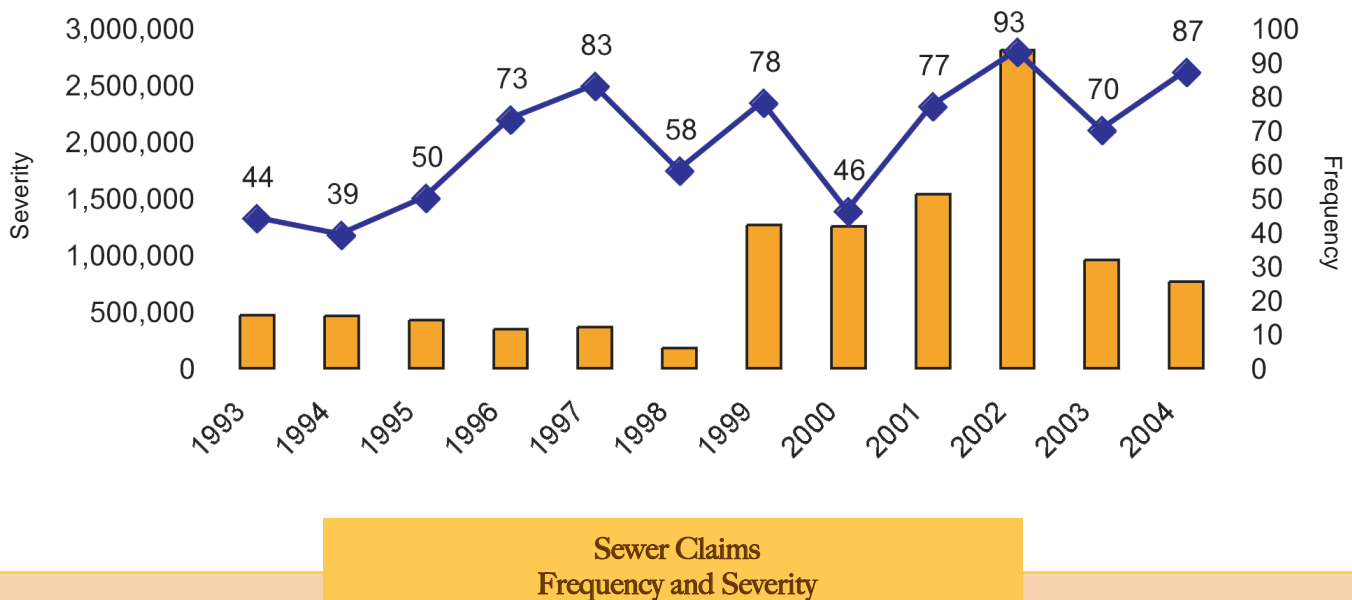
- Revising Memorandum of Coverage and Bylaws
- Adding coverage for Employment Benefit Administration Errors and Omissions (E&O)
- Completing Risk Management Assessments for all members

Pooled Liability Planned Activities

- ◆ During 2005-2006 ABAG PLAN will:
 - Implement Risk Management Policy
 - Adopt recommended risk management policies and procedures
 - Revise long-term funding strategies



City of Newark
City Administration Building



Shared Risk Programs

Pooled Property Program

The ABAG PLAN Pooled Property Program began in 1992 with the formation of a risk-sharing pool to cover losses above the \$5,000 deductible. The members purchase a comprehensive property insurance policy for losses above \$100,000. By self-insuring the pool layer and combining property values, members are able to significantly reduce their insurance costs. The program also provides physical damage coverage for member autos, with a deductible of \$10,000.

Replacement cost coverage is provided for all scheduled high-value vehicles, such as fire trucks, to minimize the impact of replacing

specialized equipment. The pool has consistently exceeded expected results, allowing the members to fund various risk management programs and providing a hedge against future market conditions or catastrophic losses.

Covered losses are valued based on the repair or replacement cost of the damaged property. Other coverages provided, per the member's property schedule and terms of the policy, include:

- Flood Coverage
- Rental Income and Tax Interruption
- Landscaping and Athletic Fields
- Course of Construction
- Building Code Upgrade Costs
- Boiler and & Machinery

Pooled Property Accomplishments

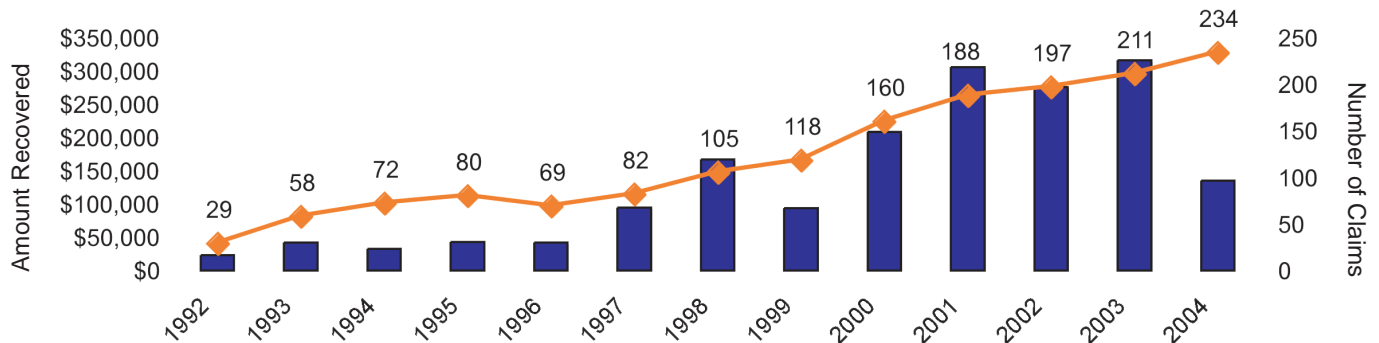
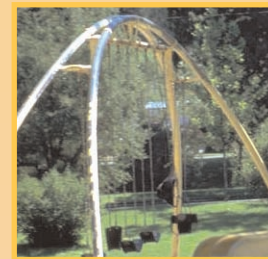
In 2004-2005, ABAG PLAN:

- Increased insured values to over \$1.6 billion
- Increased coverage with 10 percent rate decrease
- Reviewed and updated data for each member's insured property
- Conducted appraisals for key facilities and new properties

Pooled Property Plans

During 2005-2006, ABAG PLAN will:

- ◆ Complete property appraisals
- Conduct Boiler and Machinery inspections as scheduled



Recovery Amounts and Number of Claims

Shared Risk Programs

Purchasing Pools

ABAG PLAN offers a variety of group purchasing plans that allow members to customize their programs at group rates. These include:

❖ Bond Program

All members share in the group purchase of a Public Employee Commercial Crime Bond, providing a \$1,000,000 limit with a \$5,000 deductible. The coverage includes faithful performance/employee dishonesty, forgery/alteration, theft, disappearance and destruction, robbery and safe burglary, and computer fraud.

❖ Earthquake and Flood

Difference in Conditions (DIC)

Insurance is offered to members who choose to protect key facilities or who must maintain this coverage for publicly financed buildings.

❖ Employment Practices Liability

Members can purchase coverage for claims including wrongful termination, discrimination, sexual harassment, and other allegations of employment-related civil rights violations.

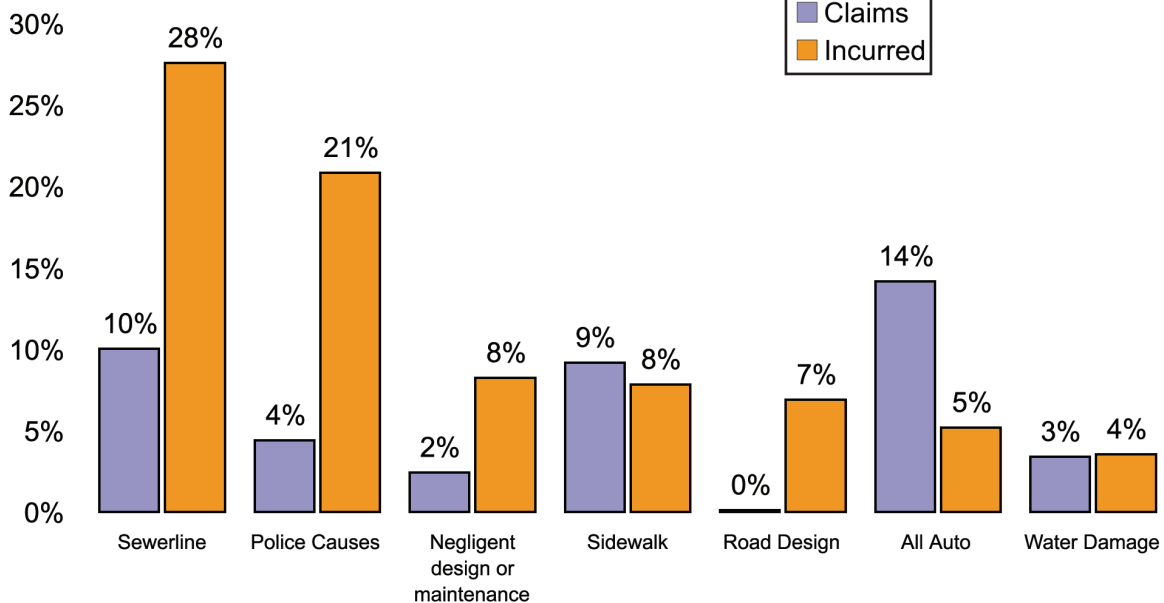
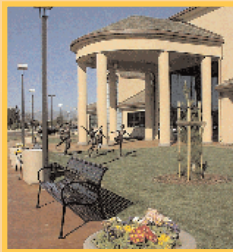
❖ Special Events and Services Liability

This insurance is offered to persons or organizations that rent or use public facilities for special events, including festivals, concerts, carnivals, and weddings. Coverage is also available for contractors, consultants, vendors, and recreational program instructors that provide services to the members and community.

❖ Excess Liability Options

Members may purchase additional excess liability insurance limits above the total of \$10 million provided by the pool to all members.

**Photo bottom left: City of Newark
Silliman Activity Center*



Largest Causes of Losses 1999 - 2005

Other Services

ABAG PLAN provides additional services as part of our approach to providing complete insurance services to local governments. These services are described below.

Claims Administration

We assign a claims examiner to each member to investigate, evaluate, negotiate, and settle both liability and property claims. Working closely with the member allows us to gather information quickly and respond promptly to reduce the impact of claims.

Litigation Management

ABAG PLAN maintains a list of preferred counsel specializing in the unique civil claims our members face. They agree to use our case management guidelines under the supervision of a professional who provides over twenty years of experience in public entity litigation. As a result, our members have successfully defended a large number of lawsuits at a reasonable cost.

Recovery Services

Property pool members receive assistance in obtaining reimbursement from persons who cause damage to public property, whether due to an auto accident, vandalism, or other cause. Since its inception in 1992,

ABAG PLAN has recovered over \$1,700,000 on behalf of our members—money that goes back to servicing community members.

Recovery Services Accomplishments

In 2004-2005, ABAG PLAN:

- ❖ Conducted member training on effective claim response
- ❖ Recovered over \$135,000 in damage claims for members
- ❖ Implemented electronic auditing of litigation expenses

Recovery Services Plans

During 2005-2006, ABAG PLAN will:

- ❖ Meet with members to review claims and response procedures
- ❖ Continue to emphasize risk management approach to claims handling
- ❖ Provide in-house technical training
- ❖ Evaluate effectiveness of legal audit program

Risk Management Services

In addition to managing the insurance and claims programs, ABAG PLAN provides a variety of risk management and pool administration services designed to meet our members' needs.

Risk Management Accomplishments

In 2004-2005, ABAG PLAN:

- ❖ Completed comprehensive risk assessment for each member
- ❖ Passed Risk Management Policy and recommended member best practices
- ❖ Conducted training in sewer loss prevention, contract analysis, and risk management basics
- ❖ Provided grants for customized member risk management training, sidewalk repair, police equipment

Risk Management Plans

In 2005-2006 ABAG PLAN will:

- ❖ Follow up with each member to implement Risk Management Policy
- ❖ Continue sewer loss prevention training and public education programs
- ❖ Conduct Defensive Driving training
- ❖ Provide risk management education grants
- ❖ Offer sidewalk repair grants
- ❖ Implement other risk management programs as needed



ABAG Hazard Mitigation Program

Earthquakes are a fact of life in California. ABAG has been publishing geologic and hazard maps for the Bay Area since the 1960s. However, earthquakes are not the only natural disasters for which California, its residents, and jurisdictions need to be prepared.

Natural hazard mitigation planning is being done on a regional level to maintain and enhance a disaster resistant region by reducing the potential loss of life, property damage, and environmental degradation from natural disasters, while accelerating economic recovery from these disasters.

ABAG has adopted "*Taming Natural Disasters*," a regional Hazard Mitigation Plan for the Bay Area. Forty cities, two counties, and ten special districts have prepared annexes to this plan to meet the requirements of the Disaster Mitigation Act of 2000 (DMA 2000), which mandates local governments to prepare such plans.

Sixteen cities in ABAG Plan have completed annexes. The overall plan, and each local government annex, includes specific strategies for mitigation of natural hazards. The final planning tasks, including estimates of loss exposure and associated risk, will be completed in early 2006 in conjunction with the 100th anniversary of the 1906 San Francisco earthquake. Earthquake planning for the San Francisco Bay Area is also the subject of ABAG's Spring General Assembly. For more information about the Multi-Jurisdictional Local Government Hazard Mitigation Plan for the San Francisco Bay Area, please contact Jeanne Perkins at (510) 464-7934 or jeannep@abag.ca.gov.

Online Hazmat School

This program is an effort of the ABAG Training Center, run by the Association of Bay Area Governments and ABAG, Inc. Online Hazmat School provides online hazardous waste, hazardous materials, and safety training in full compliance with OSHA and DOT requirements, issuing OSHA and DOT certificates and continuing education units.

Classes include hazardous waste operations, general hazardous materials, and industrial safety training for busy, time-constrained professionals. Course information and registration is available online at <http://www.hazmatschool.com>.

Shared Agency Risk Pool

Since 1986, ABAG has managed a Workers' Compensation risk-sharing pool, Shared Agency Risk Pool (SHARP). It is designed to provide small to medium-sized municipalities and agencies the benefits typically only available to larger self-insured entities. Pooling gives SHARP members the benefits of primary coverage and the flexibility of self-insurance without the added expense of a traditional insurance company. The end result is a Workers' Compensation program that provides clients with more flexibility and control of the claims process, higher quality claims service, more stable pricing, and the satisfaction of knowing that this is a pool, working with similar agencies to manage claims. For more information about SHARP, please contact Marcus Beverly at (510) 464-7969 or marcusb@abag.ca.gov.



Member Cities and Towns

2005-2006

American Canyon

Atherton

Belvedere

Benicia

Burlingame

Campbell

Colma

Cupertino

Dublin

East Palo Alto

Foster City

Gilroy

Half Moon Bay

Hillsborough

Los Altos

Los Altos Hills

Los Gatos

Millbrae

Milpitas

Morgan Hill

Newark

Pacifica

Portola Valley

Ross

San Bruno

San Carlos

San Mateo

Saratoga

South San Francisco

Suisun City

Tiburon

Woodside

Henry Gardner, President
Joseph Chan, Finance Director
Kenneth Moy, Corporate Counsel

Jim Steele, Chairman
Finance Director,
City of South San Francisco

Larry Anderson, Vice Chairman
City Attorney,
City of Burlingame

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Photos provided by:
cliparttoday.com,
pedbike/images.org/Dan
Burden, and ABAG PLAN staff



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www.abag.ca.gov/plan



Association of Bay Area Governments

Mission Statement

The purpose of the ABAG Pooled Liability Assurance Network (PLAN) Corporation is to benefit the citizens of each member community by establishing stable and cost-effective self-insurance, risk sharing, and risk management programs for each member.